

HOMER COMMUNITY SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Homer Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Community Schools, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of Homer Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the aggregate discretely presented component unit has not been reported and has not been determined.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of the Homer Community Schools, as of June 30, 2008, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Community Schools, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2008, on our consideration of Homer Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xiv and 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of Homer Community Schools' basic financial statements. The additional information on pages 28 to 36 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maner, Costeniser & Ellis, P.C.

August 15, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Homer Community Schools (HCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Homer Community Schools did not have any major construction projects in the 2008 school year. A wood floor was installed in the middle school gym. The goal of the district was to reduce the projected deficit in the general fund.

The District's general fund financial situation did not improve from the 2007 fiscal year to 2008. This is the fourth straight year in a 10 year period in which the general fund did not show improvement. For the 2007/2008 school year general fund, fund equity was decreased by \$77,263. The Board of Education initially approved a budget with a deficit of \$136,000. The deficit was due to higher cost of employee wages and benefits, fuel cost for transportation and utilities.

As expected, the athletic fund had greater expenses for 2008 than revenue; this amount was budgeted in the general fund to cover the shortfall in the athletic fund.

The food service program had more expenses than revenue for 2008 by approximately \$20,000. Expenditures came in more this year due to a change in management of the cafeteria. Homer Community Schools selected to go with an outside vendor to manage the cafeteria.

For the 2007/2008 school year, the capital projects fund paid for the newly installed wood floor in the middle school gym. There were no major transportation purchases for the 2008 school year.

Total general fund expenditures and transfers exceeded \$8.79 million dollars with revenue approximately \$8.71 million dollars; total general fund expenditures and transfers out exceeded revenue by \$77,263. The District continues to participate in short-term loans, borrowing \$1,100,000 for 2009, against anticipated state aid payments. This amount was decreased from the 2008 fiscal by \$200,000.

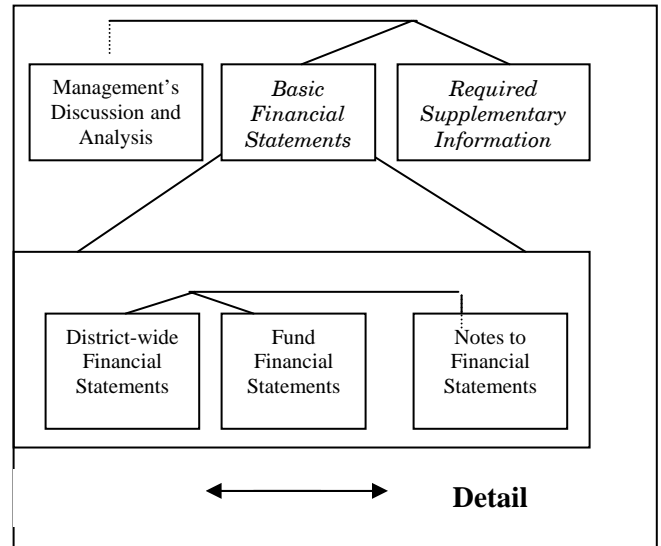
The District student membership in the Fall of 2007 increased by 22.00 FTE's from the February 2007 count. Unfortunately, the February of 2008 enrollment decreased by 5.30 students. There was not a reduction in staff or programs for the 2008 school year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide notes to financial statements.
- The governmental funds statements tell how basic services like instruction and support services were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

Figure A-1
Organization of Homer Community
Schools' Annual Financial Report



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Homer's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects fund) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's combined net assets were lower on June 30, 2008 than the year before, decreasing by \$100,666 to \$3,772,596. The other impact is the District's accumulated depreciation which was \$7,482,878 compared to District capital assets of \$15,598,360.

Table A-3		
Homer Community Schools		
	2008	2007
Current assets	\$ 3,278,335	\$ 2,965,951
Capital assets and other	8,141,402	8,433,301
Total assets	11,419,737	11,399,252
Long-term debt outstanding	4,954,528	5,296,717
Other liabilities	2,692,613	2,229,273
Total liabilities	7,647,141	7,525,990
Net assets:		
Invested in capital assets, net of related debt	3,433,539	3,415,570
Restricted for debt service	186,379	177,348
Unrestricted	152,678	280,344
Total net assets	\$ 3,772,596	\$ 3,873,262

Table A-4		
Changes in Homer Community Schools' Net Assets		
	2008	2007
Revenues:		
Program revenues:		
Charges for services	\$ 296,179	\$ 337,260
Federal and state categorical grants	922,538	771,621
General revenues:		
Property taxes	1,107,409	1,096,345
Investment	30,777	43,618
State aid - unrestricted	6,951,662	6,871,842
ISD	428,848	501,176
Other	34,950	31,067
Total revenues	<u>9,772,363</u>	<u>9,652,929</u>
Expenses:		
Instruction	5,598,998	5,481,138
Support services	2,783,192	2,771,330
Community services	206,386	179,800
Outgoing transfers and other	20,315	30,862
Food services	474,901	391,320
Athletics	196,212	197,473
Interest on long-term debt	186,834	198,151
Unallocated depreciation	406,191	403,054
Total expenses	<u>9,873,029</u>	<u>9,653,128</u>
Change in net assets	<u>\$ (100,666)</u>	<u>\$ (199)</u>

District Governmental Activities

The District's financial condition has come about through a number of areas.

- Proposal A which established the student foundation grant concept, and has increased that amount from \$4,352 per student in 1995 to \$7,204 per student in 2008.
- Student growth in the District has decreased. In fiscal year 1999 state aid membership was 1,129.72 and in seven years has decreased by 7.78% to 1,041.81 Homer Community Schools does participate in School of Choice and Open Enrollment to attract new students to the District.
- Many of the District's employees have been part of a total compensation method of determining their wage and benefit package, which has allowed the District's total compensation to generally keep pace with decrease District revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District as a whole has a combined fund balance is \$1.012 million compared to \$1.136 million in 2007. The fund balance decreased by \$124,355 for the year primarily due to the increase in employee cost and higher fuel and utilities cost. There is a debt service fund with a net fund balance of \$221,110. The general fund decreased its fund balance by \$77,263 and other nonmajor governmental funds decreased by \$54,599 (food service, activities and capital projects).

The General Fund's expenditures were about 1.01% greater than yearly revenues, while Athletic spending was nearly 45.70% greater than revenues. The general fund contribution to the athletic fund brought this fund to its expected balance of matching revenues to expenditures. For fiscal 2008, food service ended with a fund balance of \$88,069 covering the District for two months of expense obligations.

General Fund and Budget Highlights

During the 2008 fiscal year the original District budget was amended several times to reflect changes which affected the District.

The initial amendment took place in the fall, once the student count and staff changes had been determined. Winter amendments took place to account for the change in February student count, and decrease spending was done to reduce the projected deficit. All programs and staff were maintained, only necessary expenditures were made.

Spring amendments took place to more accurately reflect payouts, being made to District employees who were leaving the district, as well as adjusting for utilities cost from the winter months. Full school funding was also an unknown in the spring in planning the 2009 school year.

The final amended budget was to have expenditures and outgoing transfers greater by (\$48,700) than revenues. Final results showed that revenues came in less (\$161,115) than were anticipated, but expenditures came in less (\$132,552). The net result after other financing sources and (uses) was a change in fund balance of \$77,263, decreasing the fund balance to \$597,319. The District knowingly spent fund balance in fiscal 2008 and corrective steps to bring revenue and expenditures in line with one another are being taken for the 2008/2009 school year.

General fund expenditures came within 1.53% of final budgeted amounts. Inventory controls allowed the District to anticipate a reduction in expenditures for summer cleaning and preparation for fall school opening. Utilities and fuel expenditures came in very close to that anticipated for the month of June.

Overall the difference between the final District's amended budget and end of the year figures amounted to a \$28,563 variance. The change from the Board adopted budget of June 2007 amounted to \$87,870 to the final budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5				
Homer Community Schools' Capital Assets				
	2008			2007
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 15,000	\$	\$ 15,000	\$ 15,000
Buildings and improvements	10,926,209	3,423,020	7,503,189	7,640,950
Technology	699,828	600,682	99,146	114,008
Furniture and fixtures	1,942,583	1,687,919	254,664	333,754
Machinery and equipment	1,028,815	922,410	106,405	118,696
Transportation equipment	985,925	848,847	137,078	182,616
Total	\$ 15,598,360	\$ 7,482,878	\$ 8,115,482	\$ 8,405,024

The only building and improvements made in 2008 was the installation of the middle school gym floor. The total net decrease was \$289,542.

LONG-TERM DEBT

At year end the District had \$5,347,120 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

The District issued \$5,600,000 of bonds in September 2004 for a capital project, which has since been reduced as an outstanding debt. Principal and interest payments have been made to decrease the long-term debt.

A decrease in compensated absences of \$3,129 was also recorded. The decrease from 2007 to 2008 is because of employees leaving the District. With employees leaving this meant the hiring of new staff with less sick time liability and with lower wages for fiscal 2008.

Table A-6		
Homer Community Schools		
Outstanding Long-Term Debt		
	2008	2007
General obligation bonds and other debt	\$ 4,657,911	\$ 4,967,779
Durant - limited obligation bonds	49,952	49,952
Compensated absences	639,257	642,386
	<u>\$ 5,347,120</u>	<u>\$ 5,660,117</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of four existing circumstances that could significantly affect its financial health in the future:

- The 2008-2009 foundation allowance has been projected to increase to \$7,300. This was based on as a conservative estimate with the possibility of potential pro-ration cuts from the State of Michigan for the 2008/2009 school year. The foundation allowance represents 83% of total District revenue.
- The District is plaintiff with other school districts in a lawsuit against the State, seeking to rectify inequities in the formula the State uses to apportion aid to the District.
- Students count is projected to decline slowly over the next five years.
- Health care costs have increased and retirement contributions decreased to a new rate of 16.54%.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Homer Community Schools, 403 S. Hillsdale St, Homer, Michigan 49245.

BASIC FINANCIAL STATEMENTS

**HOMER COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2008**

ASSETS	Governmental activities
CURRENT ASSETS:	
Cash	\$ 829,351
Investments	1,000,000
Receivables:	
Due from other governmental units	1,448,984
TOTAL CURRENT ASSETS	3,278,335
NONCURRENT ASSETS:	
Deferred charges, net of amortization	25,920
Capital assets	15,598,360
Less accumulated depreciation	(7,482,878)
TOTAL NONCURRENT ASSETS	8,141,402
TOTAL ASSETS	\$ 11,419,737
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 21,036
Accrued salaries and related items	777,288
Accrued interest	64,881
Deferred revenue	136,816
Note payable	1,300,000
Current portion of long-term obligations	339,321
Current portion of termination benefits	53,271
TOTAL CURRENT LIABILITIES	2,692,613
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	4,368,542
Noncurrent portion of compensated absences and termination benefits	585,986
TOTAL NONCURRENT LIABILITIES	4,954,528
TOTAL LIABILITIES	7,647,141
NET ASSETS:	
Invested in capital assets, net of related debt	3,433,539
Restricted for debt service	186,379
Unrestricted	148,985
TOTAL NET ASSETS	3,768,903
TOTAL LIABILITIES AND NET ASSETS	\$ 11,416,044

See notes to financial statements.

**HOMER COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 5,598,998	\$ 240	\$596,670	\$ (5,002,088)
Support services	2,783,192	-	76,779	(2,706,413)
Community services	206,386	33,033	-	(173,353)
Outgoing transfers and other transactions	20,315	-	-	(20,315)
Food services	474,901	201,367	249,089	(24,445)
Athletics	196,212	61,539	-	(134,673)
Interest on long-term debt	186,834	-	-	(186,834)
Unallocated depreciation	406,191	-	-	(406,191)
Total governmental activities	<u>\$ 9,873,029</u>	<u>\$ 296,179</u>	<u>\$922,538</u>	<u>(8,654,312)</u>
General revenues:				
Property taxes, levied for general purposes				613,140
Property taxes, levied for debt service				494,269
Investment earnings				30,777
State sources				6,951,662
Intermediate sources				428,848
Other				34,950
Total general revenues				<u>8,553,646</u>
CHANGE IN NET ASSETS				<u>(100,666)</u>
NET ASSETS , beginning of year				<u>3,873,262</u>
NET ASSETS , end of year				<u>\$ 3,772,596</u>

HOMER COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General Fund	2004 Debt Service fund	Other nonmajor governmental funds	Total governmental funds
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 459,559	\$ 173,403	\$ 196,389	\$ 829,351
Investments	1,000,000	-	-	1,000,000
Receivables:				
Due from other governmental units	1,448,984	-	-	1,448,984
Due from other funds	-	47,707	496	48,203
TOTAL ASSETS	\$ 2,908,543	\$ 221,110	\$ 196,885	\$ 3,326,538
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 21,036	\$ -	\$ -	\$ 21,036
Accrued salaries and related items	777,288	-	-	777,288
Accrued interest	30,150	-	-	30,150
Due to other funds	48,203	-	-	48,203
Deferred revenue	134,547	-	3,592	138,139
Note payable	1,300,000	-	-	1,300,000
TOTAL LIABILITIES	2,311,224	-	3,592	2,314,816
FUND BALANCES:				
Reserved for debt service	\$ -	\$ 221,110	\$ -	\$ 221,110
Unreserved:				
Designated for severance pay	597,319	-	-	597,319
Undesignated	-	-	189,600	189,600
TOTAL FUND BALANCES	597,319	221,110	189,600	1,008,029
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,908,543	\$ 221,110	\$ 193,192	\$ 3,322,845
Total governmental fund balances				\$ 1,008,029
Amounts reported for governmental activities in the statement of net assets are different because:				
Value of amortized bond issuance costs			\$ 32,991	
Accumulated amortization			(7,071)	
				25,920
Capital assets used in governmental activities are not financial resources and are not reported in the funds				
The cost of the capital assets is			15,598,360	
Accumulated depreciation is			(7,482,878)	
				8,115,482
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Bonds payable				(4,707,863)
Compensated absences and termination benefits				(639,257)
Accrued interest is not included as a liability in government funds, it is recorded when paid				(34,731)
Deferred revenue at June 30, 2008, expected to be collected after September 1, 2008				1,323
Net assets of governmental activities				\$ 3,768,903

**HOMER COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008**

[illegible]

**HOMER COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Net change in fund balances total governmental funds \$ (124,355)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(406,191)
Capital outlay	116,649

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	36,255
Accrued interest payable, end of the year	(34,731)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Payments on debt	307,330
Amortization of bond issuance costs	(2,357)
Amortization of bond premium	2,538

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue, beginning of the year	(256)
Deferred revenue, end of the year	1,323

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and termination benefits, beginning of the year	642,386
Accrued compensated absences and termination benefits, end of the year	(639,257)

Change in net assets of governmental activities	\$ (100,666)
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**HOMER COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008**

	<u>Agency fund</u>	<u>Private Purpose Trust Fund</u>
ASSETS		
Cash	<u>\$ 167,692</u>	<u>\$ 25,183</u>
LIABILITES AND NET ASSETS		
LIABILITIES:		
Due to student and other groups	\$ 167,692	\$ -
NET ASSETS:		
Reserved for trust activities	<u>-</u>	<u>25,183</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 167,692</u></u>	<u><u>\$ 25,183</u></u>

**HOMER COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2008**

	<u>Private Purpose Trust Fund</u>
ADDITIONS:	
Interest earnings	<u>\$ 1,948</u>
DEDUCTIONS:	
Other	<u>1,470</u>
CHANGE IN NET ASSETS	478
NET ASSETS:	
Beginning of year	<u>24,705</u>
End of year	<u><u>\$ 25,183</u></u>

HOMER COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Homer Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, except as described in Note 1A. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Homer Community Schools (the "District") is governed by the Homer Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

Component unit. The Max and Lucille Cortright Homer Education Foundation is a separate tax exempt not for profit corporation under Internal Revenue Code section 501(c)(3). The purpose is to provide additional funding for the education of the children of Homer. This entity has been excluded from these financial statements and separate audited financial statements have not been prepared.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *2004 debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Concluded)

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *capital projects fund* accounts for the receipt of debt proceeds, transfers from the general fund, other revenue and the acquisition of fixed assets or construction of major capital projects.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust* fund is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where interest payments may be spent for student scholarships. These funds are not included in the District's government-wide financial statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18.0000
Debt service fund - Homestead and non-homestead	4.5000

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. The Superintendent of Business is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

HOMER COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2008, the District had no investments as defined by generally accepted accounting principles. The investments reported on the face of the financial statements consist of certificates of deposits.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, \$1,461,915 of the District's bank balance of \$2,061,915 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. Certificates of deposits are included in the above totals.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

Deposits are reported in the financial statements as follows:

Cash Private Purpose Trust Fund	\$ 25,183
Cash Agency Fund	167,692
Cash - District-wide	829,351
Investments - District-wide (certificates of deposit)	<u>1,000,000</u>
	<u><u>\$ 2,022,226</u></u>

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Capital assets, being depreciated:				
Buildings and improvements	10,856,249	69,960	-	10,926,209
Technology	678,258	21,570	-	699,828
Furniture and fixtures	1,926,214	16,369	-	1,942,583
Machinery and equipment	1,020,065	8,750	-	1,028,815
Transportation and equipment	1,000,925	-	(15,000)	985,925
Total capital assets being depreciated	15,481,711	116,649	(15,000)	15,583,360
Accumulated depreciation:				
Buildings and improvements	3,215,299	207,721	-	3,423,020
Technology	564,250	36,432	-	600,682
Furniture and fixtures	1,592,460	95,459	-	1,687,919
Machinery and equipment	901,369	21,041	-	922,410
Transportation and equipment	818,309	45,538	(15,000)	848,847
Total accumulated depreciation	7,091,687	406,191	(15,000)	7,482,878
Net capital assets being depreciated	8,390,024	(289,542)	-	8,100,482
Net governmental capital assets	\$ 8,405,024	\$ (289,542)	\$ -	\$ 8,115,482

Depreciation for the fiscal year ended June 30, 2008 amounted to \$406,191. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTE PAYABLE

At June 30, 2008, the District has a note payable outstanding of \$1,300,000. The note has an interest rate of 3.68% and matures August 20, 2008. The District has \$1,000,000 of funds on deposit with a financial institution, which are included in investments on the general fund balance sheet, to be applied against the \$1,300,000 note. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2007	Additions	Payments	Balance June 30, 2008
<u>\$ 1,200,000</u>	<u>\$ 1,300,000</u>	<u>\$ 1,200,000</u>	<u>\$ 1,300,000</u>

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

	Capital lease obligations and notes	General obligation bonds and premium	Termination benefits and compensated absences	Limited obligation Durant bonds	Total
Balance, July 1 2007	\$ 2,330	\$ 4,965,449	\$ 642,386	\$ 49,952	\$ 5,660,117
Deletions	<u>(2,330)</u>	<u>(307,538)</u>	<u>(3,129)</u>	<u>-</u>	<u>(312,997)</u>
Balance, June 30, 2008	-	4,657,911	639,257	49,952	5,347,120
Less current portion	<u>-</u>	<u>(332,538)</u>	<u>(53,271)</u>	<u>(6,783)</u>	<u>(392,592)</u>
Total due after one year	<u>\$ -</u>	<u>\$ 4,325,373</u>	<u>\$ 585,986</u>	<u>\$ 43,169</u>	<u>\$ 4,954,528</u>

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Continued)

Long-term obligation debt at June 30, 2008 is comprised of the following:

2004 serial bonds due in annual installments of \$330,000 to \$515,000 through May 2019 with interest from 3.25% to 4.30%.	\$ 4,630,000
Limited obligation (Durant) bond, due in installments of \$6,783 to \$19,758 through May 15, 2013, with interest of 4.76%. Certain future state aid payments have been pledged as security.	49,952
Obligation under contract for compensated absences	639,257
Plus: premium on 2004 bond issuance	<u>27,911</u>
Total general long-term debt	<u><u>\$ 5,347,120</u></u>

Interest expense (all funds) for the year ended June 30, 2008 was approximately \$222,000. General fund interest expense is included in support services.

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debt outstanding as of June 30, 2008, including interest of \$1,216,555 are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 336,783	\$ 182,052	\$ 518,835
2010	364,758	175,465	540,223
2011	367,444	158,591	526,035
2012	387,798	145,636	533,434
2013	408,169	131,015	539,184
2014 - 2018	2,300,000	401,650	2,701,650
2019	515,000	22,146	537,146
Total	4,679,952	1,216,555	5,896,507
Premium on bond issuance	27,911	-	27,911
Accumulated compensated absences	639,257	-	639,257
	<u>\$ 5,347,120</u>	<u>\$ 1,216,555</u>	<u>\$ 6,563,675</u>

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2008 are as follows:

Receivable fund		Payable fund	
Special revenue	\$ 496	General	\$ 48,203
Debt service	<u>47,707</u>		
	<u>\$ 48,203</u>		<u>\$ 48,203</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 17.74% through September 2007 and 16.72% for October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2008, 2007 and 2006 were approximately \$880,000, \$919,000 and \$882,000, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Also within the MPERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPERS has contracted to provide the comprehensive group medical, hearing, dental and vision overages for retirees and beneficiaries. A significant portion of the premium is paid by the MPERS with the balance deducted from the monthly pension.

**HOMER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 10 - TRANSFERS

The general fund transferred \$134,673 to the athletic fund during the current fiscal year. The transfer to the athletic fund was to subsidize operations.

NOTE 11 - SUBSEQUENT EVENTS

The District has approved borrowing \$1,100,000 for fiscal year 2009 to replace the note payable as described in Note 5.

REQUIRED SUPPLEMENTARY INFORMATION

**HOMER COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2008**

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUES:				
Local sources	\$ 765,180	\$ 709,265	\$ 662,642	\$ (46,623)
State sources	7,030,083	7,419,472	7,307,556	(111,916)
Federal sources	263,984	320,131	317,555	(2,576)
Incoming transfers and other	497,869	428,848	428,848	-
Total revenues	<u>8,557,116</u>	<u>8,877,716</u>	<u>8,716,601</u>	<u>(161,115)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	4,334,869	4,480,761	4,376,386	104,375
Added needs	1,190,980	1,219,856	1,219,141	715
Adult and continuing education	15,880	6,600	6,600	-
Total instruction	<u>5,541,729</u>	<u>5,707,217</u>	<u>5,602,127</u>	<u>105,090</u>
Supporting services:				
Pupil	117,555	107,815	107,077	738
Instructional staff	140,520	107,927	107,200	727
General administration	249,080	225,311	223,397	1,914
School administration	511,405	491,223	490,324	899
Business	331,825	337,306	321,390	15,916
Operation/maintenance	921,300	991,873	1,001,587	(9,714)
Pupil transportation	447,450	535,515	522,816	12,699
Central	65,880	56,575	56,572	3
Total supporting services	<u>2,785,015</u>	<u>2,853,545</u>	<u>2,830,363</u>	<u>23,182</u>
Community services	<u>212,775</u>	<u>210,666</u>	<u>206,386</u>	<u>4,280</u>
Outgoing transfers and other transactions	<u>23,000</u>	<u>20,315</u>	<u>20,315</u>	<u>-</u>
Total expenditures	<u>8,562,519</u>	<u>8,791,743</u>	<u>8,659,191</u>	<u>132,552</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(5,403)</u>	<u>85,973</u>	<u>57,410</u>	<u>(28,563)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers to other funds	<u>(131,167)</u>	<u>(134,673)</u>	<u>(134,673)</u>	<u>-</u>
Total other financing uses	<u>(131,167)</u>	<u>(134,673)</u>	<u>(134,673)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (136,570)</u>	<u>\$ (48,700)</u>	<u>(77,263)</u>	<u>\$ (28,563)</u>
FUND BALANCE:				
Beginning of year			<u>674,582</u>	
End of year			<u>\$ 597,319</u>	

ADDITIONAL INFORMATION

**HOMER COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2008**

	<u>Special revenue</u>	<u>Nonmajor capital projects fund</u>	<u>Total nonmajor governmental funds</u>
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 91,661	\$ 104,728	\$ 196,389
Due from other funds	<u>496</u>	<u>-</u>	<u>496</u>
TOTAL ASSETS	<u><u>\$ 92,157</u></u>	<u><u>\$ 104,728</u></u>	<u><u>\$ 196,885</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Deferred revenue	\$ 3,592	\$ -	\$ 3,592
FUND BALANCES:			
Unreserved, undesignated	<u>88,565</u>	<u>101,035</u>	<u>189,600</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 92,157</u></u>	<u><u>\$ 101,035</u></u>	<u><u>\$ 193,192</u></u>

**HOMER COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2008**

	Special revenue	Nonmajor capital projects fund	Total nonmajor governmental funds
REVENUES:			
Local sources:			
Investment earnings	\$ 4,017	\$ 3,693	\$ 7,710
Food sales and admissions	262,906	-	262,906
Other	-	34,125	34,125
Total local sources	266,923	37,818	304,741
State sources	14,679	-	14,679
Federal sources	234,410	-	234,410
Total revenues	516,012	37,818	553,830
EXPENDITURES:			
Current:			
Food service activities	474,901	-	474,901
Athletic activities	196,212	-	196,212
Capital outlay	-	71,989	71,989
Total expenditures	671,113	71,989	743,102
DEFICIENCY OF REVENUES OVER EXPENDITURES	(155,101)	(34,171)	(189,272)
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds	134,673	-	134,673
NET CHANGE IN FUND BALANCES	(20,428)	(34,171)	(54,599)
FUND BALANCES:			
Beginning of year	108,993	138,899	247,892
End of year	\$ 88,565	\$ 104,728	\$ 193,293

**HOMER COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2008**

	Food Service	Athletics	Totals
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 91,661	\$ -	\$ 91,661
Due from other funds	-	496	496
TOTAL ASSETS	\$ 91,661	\$ 496	\$ 92,157
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Deferred revenue	\$ 3,592	\$ -	\$ 3,592
FUND BALANCES:			
Unreserved/undesignated	88,069	496	88,565
TOTAL LIABILITIES AND FUND BALANCES	\$ 91,661	\$ 496	\$ 92,157

**HOMER COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2008**

	Food Service	Athletics	Totals
REVENUES:			
Sales	\$ 201,367	\$ -	\$ 201,367
State aid	14,679	-	14,679
Federal aid	234,410	-	234,410
Admissions	-	61,539	61,539
Investment earnings	4,017	-	4,017
	<hr/>	<hr/>	<hr/>
Total revenues	454,473	61,539	516,012
	<hr/>	<hr/>	<hr/>
EXPENDITURES:			
Salaries	133,643	101,256	234,899
Benefits	31,809	24,762	56,571
Purchased services	72,661	24,712	97,373
Supplies and materials	187,202	26,947	214,149
Other expenses	49,586	18,535	68,121
	<hr/>	<hr/>	<hr/>
Total expenditures	474,901	196,212	671,113
	<hr/>	<hr/>	<hr/>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(20,428)	(134,673)	(155,101)
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds	-	134,673	134,673
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	(20,428)	-	(20,428)
	<hr/>	<hr/>	<hr/>
FUND BALANCES:			
Beginning of year	108,497	496	108,993
	<hr/>	<hr/>	<hr/>
End of year	\$ 88,069	\$ 496	\$ 88,565
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**HOMER COMMUNITY SCHOOLS
FIDUCIARY FUNDS
(INTERNAL FUNDS)
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND LIABILITIES
BY ACTIVITY – AGENCY FUND
YEAR ENDED JUNE 30, 2008**

	Balance 7/1/07	Additions	Deductions	Balance 6/30/08
Academic Boosters Club	\$ 1,551	\$ 7,179	\$ (6,435)	\$ 2,295
Academic Service Learning	-	425	(425)	-
Alternative Ed Office account	1		(1)	-
Band Account - McMeeking	635	1,120	(1,782)	(27)
Band Store Supplies	47	256	(159)	144
Band - Jazz Band Account	(87)	265	(28)	150
Band Boosters - Parents Group	8,559	27,727	(26,696)	9,590
CHAMPS	1,364	605	(1,330)	639
Chicago Trip - 7th Grade	3,831	9,677	(9,932)	3,576
Dance Team	149	1,488	(1,747)	(110)
Class of 2007	417	-	(417)	-
Class of 2008	2,277	565	(2,831)	11
Class of 2008 - Parent Account	-	1,608	(1,608)	-
Class of 2009	3,188	7,351	(6,927)	3,612
Class of 2010	1,064	950	(423)	1,591
Class of 2011	385	661	(60)	986
Class of 2012	319	28	-	347
Class of 2013	55	118	-	173
Class of 2014	64	53	-	117
Class of 2015	-	48	-	48
Class of 2016	1,482	645	(2,127)	-
Class of 2017	1,207	464	-	1,671
Class of 2018	543	328	-	871
Class of 2019	454	335	-	789
Class of 2020	354	514	-	868
Concessions - pop fund	2,034	40,687	(43,995)	(1,274)
Collmenter Family Scholarship	-	1,000	-	1,000
Cooley-DVD Account	2,044	5,013	(888)	6,169
Cortright Grant	17,584	1,316	(18,900)	-
Draime Golf Tournament	4,547	21,195	(20,660)	5,082

**HOMER COMMUNITY SCHOOLS
FIDUCIARY FUNDS
(INTERNAL FUNDS)
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND LIABILITIES
BY ACTIVITY – AGENCY FUND
YEAR ENDED JUNE 30, 2008**

	Balance 7/1/07	Additions	Deductions	Balance 6/30/08
Warren Dexter Fund	\$ 150	\$ 115	\$ (264)	\$ 1
Elementary Art Fund	50	50	-	100
Elementary Clothing	70	215	-	285
Elementary Field Trip Fund	519	3,430	(2,447)	1,502
Elementary Media Activities	2,906	6,297	(6,999)	2,204
Elementary Office Account	265	202	(130)	337
Elementary Pop Fund	(7)	514	(267)	240
Fine Arts Parents Fund	262	-	(262)	-
Flag Corp	-	-	(54)	(54)
Fourth Grade Trip Fund	18,879	30,636	(26,055)	23,460
Future Farmers of America	9,463	47,530	(40,095)	16,898
Future Farmers of America Alumni	5,423	2,077	-	7,500
Future Farmers of America Alumni - Checking	3,844	6,072	(8,568)	1,348
Homer Soccer Program	861	2,753	(3,232)	382
Homer Student Loan	1,405	-	(1,405)	-
H.S. Art	110	50	-	160
H.S. Choir	886	4,810	(3,469)	2,227
H.S. Completion Program	-	100	(100)	-
H.S. Drama Club	1,666	7,688	(7,817)	1,537
H.S. Guidance	741	720	(423)	1,038
H.S. SPED Activity Account	-	129	-	129
H.S. Media Center	219	1,901	(1,614)	506
Home Ec	1,120	1,346	(2,428)	38
I Can Read to You	683	-	(119)	564
In Service	2,797	200	(323)	2,674
Interest Account	1,801	12,691	(12,531)	1,961
M. S. Student Activity	4,617	18,079	(21,232)	1,464
Mystery Trip (Prom Night)	1,059	5,950	(4,921)	2,088
National Honor Society	442	-	(76)	366
P.T.O.	17,411	25,143	(19,901)	22,653

**HOMER COMMUNITY SCHOOLS
FIDUCIARY FUNDS
(INTERNAL FUNDS)
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND LIABILITIES
BY ACTIVITY – AGENCY FUND
YEAR ENDED JUNE 30, 2008**

	Balance 7/1/07	Additions	Deductions	Balance 6/30/08
Publications	\$ -	\$ 18	\$ (18)	\$ -
Quiz Bowl	-	183	(182)	1
Peacock State Farm Grant	1,543	-	(173)	1,370
S.A.D.D.	706	-	-	706
Sharps Class	74	-	-	74
Spanish Club	1,163	208	(251)	1,120
Student Council	742	796	(658)	880
Summer Recreation	1,803	21,576	(23,455)	(76)
Tech Kids	-			-
Trojan Yearbook	4,570	7,808	(8,602)	3,776
Unreimburse Medical - Employee Elect	883	12,401	(12,705)	579
Varsity Club	8,715	40,104	(36,848)	11,971
Wilbur-Drama Program	-	1,134	(972)	162
Weight Room	194	740	(934)	-
Youth Basketball	1,015	2,280	(3,295)	-
Youth Grant	2,335	7,740	(7,472)	2,603
Youth in Government	-	80	(80)	-
Other:				
Board operating	5,478	2,310	(2,478)	5,310
B. Edwards Emergency Fund	360	-	(26)	334
H-Club (Trojan Wear Sold)	1,791	553	(613)	1,731
High School Office Account	864	364	(213)	1,015
Homer alumni - Ballentine	2,130	3,259	(840)	4,549
Homer alumni - general account	1,478	1,185	(1,036)	1,627
Homer Area Community Foundation	903	2,710	(3,614)	(1)
Preschool Program - Parent Paid	(73)	9,745	(9,672)	-
Revolving	51	47,187	(47,203)	35
	<u>\$ 168,435</u>	<u>\$ 472,700</u>	<u>\$ (473,443)</u>	<u>\$ 167,692</u>

**HOMER COMMUNITY SCHOOL DISTRICT
BONDED DEBT
JUNE 30, 2008**

\$121,874 Durant Bond issued November 24, 1998:

Principal due May 1	Interest due May 15	Debt service requirement for fiscal year	
		June 30,	Amount
\$ 6,783	\$ 1,776	2009	\$ 8,559
19,758	5,915	2010	25,673
7,444	1,115	2011	8,559
7,798	760	2012	8,558
8,169	389	2013	8,558
<u>\$ 49,952</u>	<u>\$ 9,955</u>		<u>\$ 59,907</u>

The above bond issue bears interest at 4.76%. The bond proceeds were used for erecting, furnishing and equipping additions to the existing high school building and developing and improving the site.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

\$5,600,000 Bonds issued August 1, 2004:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 330,000	\$ 90,138	\$ 90,138	2009	\$ 510,276
345,000	84,775	84,775	2010	514,550
360,000	78,738	78,738	2011	517,476
380,000	72,438	72,438	2012	524,876
400,000	65,313	65,313	2013	530,626
420,000	57,813	57,813	2014	535,626
440,000	49,413	49,413	2015	538,826
460,000	40,613	40,613	2016	541,226
480,000	31,413	31,413	2017	542,826
500,000	21,573	21,573	2018	543,146
515,000	11,073	11,073	2019	537,146
<u>\$ 4,630,000</u>	<u>\$ 603,300</u>	<u>\$ 603,300</u>		<u>\$ 5,836,600</u>

The above bonds were authorized at an election June 14, 2004 and have interest rates from 3.25% to 4.3%. The bonds were issued for the purpose of erecting, furnishing and equipping an addition connecting the middle/high school and elementary school; refurnishing and re-equipping school buildings; acquiring and installing educational technology improvements; and developing and improving the site.

HOMER COMMUNITY SCHOOLS
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2008

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Lamonte T. Lator
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Jeffrey C. Stevens
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David M. Raeck
Robert E. Miller, Jr.
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James E. Nyquist
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Dennis D. Theis
James A. McNeeley

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Homer Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Community Schools as of and for the year ended June 30, 2008, which collectively comprise Homer Community Schools basic financial statements and have issued our report thereon dated August 15, 2008, our opinion on the reporting entity was adverse, however our opinion on the primary government (Homer Community Schools), was unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Homer Community Schools internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Homer Community Schools internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Homer Community Schools internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described as 2008-1 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Homer Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain other matters that we reported to management of Homer Community Schools in a separate letter dated August 15, 2008.

Homer Community Schools response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, others within the entity, U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mamie Costeniser & Ellis, P.C.

August 15, 2008



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Education
Homer Community Schools

Compliance

We have audited the compliance of Homer Community Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Homer Community Schools major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Homer Community Schools management. Our responsibility is to express an opinion on Homer Community Schools compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Homer Community Schools compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Homer Community Schools compliance with those requirements.

In our opinion, Homer Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Homer Community Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Homer Community Schools internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Homer Community Schools internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Community Schools, as of and for the year ended June 30, 2008, and have issued our report thereon dated August 15, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Homer Community Schools basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer, Costeniser & Ellis, P.C.

August 15, 2008

**HOMER COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2007	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2008
<u>U.S. Department of Agriculture:</u>								
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
NSL - breakfast	10.553	071970	\$ 28,294	\$ -	\$ 24,574	\$ 3,720	\$ 3,720	\$ -
		081970	41,191	-	-	41,191	41,191	-
			69,485	-	24,574	44,911	44,911	-
National School Lunch	10.555	071950	25,100	-	18,889	2,917	2,917	-
		081950	43,848	-	-	24,959	24,959	-
		071960	141,286	-	95,771	14,122	14,122	-
		081960	221,922	-	-	126,149	126,149	-
			432,156	-	114,660	168,147	168,147	-
Total Child Nutrition Cluster			501,641	-	139,234	213,058	213,058	-
Commodities: Food Distribution Entitlement	10.550		21,352	-	8,847	21,352	21,352	-
Total U.S. Department of Agriculture			522,993	-	148,081	234,410	234,410	-

The accompanying notes are an integral part of this schedule.

HOMER COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2006	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2008
U.S. Department of Education:								
Passed through the Michigan Department of Education:								
Title I	84.010	081530/0708	\$260,448	\$ -	\$ -	\$260,448	\$ 256,566	\$ (3,882)
Title II Part D	84.318		-	-	-	-	-	-
		084290/0708	2,173	-	-	2,173	2,173	-
Title V	84.298	080250/0708	1,717	-	-	1,717	1,717	-
Improving Teacher Quality	84.367	080520/0708	51,499	-	-	51,499	51,499	-
Total passed through Michigan Department of Education			315,837	-	-	315,837	311,955	(3,882)

The accompanying notes are an integral part of this schedule.

HOMER COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2006	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2008
Passed through Calhoun Intermediate School District:								
Individuals with Disabilities Education Act	84.027A	080490/TS	\$ 50	\$ -	\$ -	\$ 50	\$ 50	\$ -
Safe and Drug Free Schools	84.186A	062860/0607 072860/0708	3,379	3,379	3,379	3,379	-	-
			4,100	-	-	4,100	4,100	-
			7,479	3,379	3,379	7,479	4,100	-
Tech-prep education	84.243A	083540/8014-21	900	-	-	900	900	-
Education Technology	84.318	074260/0708	550	-	-	550	550	-
Total passed through Calhoun Intermediate School District			8,979	3,379	3,379	8,979	5,600	-
Total U.S. Department of Education			324,816	3,379	3,379	324,816	317,555	(3,882)
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$847,809	\$ 3,379	\$ 151,460	\$559,226	\$ 551,965	\$ (3,882)

The accompanying notes are an integral part of this schedule.

**HOMER COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Homer Community Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciled with the amounts presented in the preparation of the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Title I (CFDA 84.010) and Child Nutrition Cluster (CFDA 10.553 and 10.555) were audited as major programs and represents 85% of expenditures.
2. The threshold for distinguishing Type A and B programs was \$300,000.
3. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 317,555
Other nonmajor governmental funds	<u>234,410</u>
	<u><u>\$ 551,965</u></u>

4. Management has utilized the Grant Section Auditors' Report (Form R7120) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
5. The National School Lunch Program Commodities Entitlement award was \$21,352. The District received commodities totaling \$21,352. Based upon confirmation from the Michigan Department of Education, \$21,352 has been recorded.

**HOMER COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

General	<i>Adverse</i>
Primary government	<i>Unqualified</i>

Internal control over financial reporting:

➤ Material weakness(es) identified?	_____	Yes	_____ <u>X</u> _____	No
➤ Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ <u>X</u> _____	Yes	_____	No

Noncompliance material to financial statements noted?	_____	Yes	_____ <u>X</u> _____	No
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Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified:	_____	Yes	_____ <u>X</u> _____	No
➤ Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____	Yes	_____ <u>X</u> _____	None reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____	Yes	_____ <u>X</u> _____	No
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Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.010	Title I

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?	_____	Yes	_____ <u>X</u> _____	No
--	-------	-----	----------------------	----

**HOMER COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Section II – Financial Statement Findings

Finding 2008-1 Considered a Significant Deficiency

Criteria: Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition: Currently, the District's staff requests the external auditor's assistance in the preparation of the annual financial statements and related footnotes.

Context: External assistance is required to prepare the annual financial statements and related footnotes.

Effect: Utilization of the external auditor in preparing the financial statements and related footnotes to the financial statements assists management with the external financial reporting responsibility, to ensure their financial statements are accurate.

Cause: The staff of the district does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the financial statements and footnotes to the financial statements.

Recommendation: At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

**HOMER COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

None

**HOMER COMMUNITY SCHOOLS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

There were no audit findings required to be reported on this schedule for the year ended June 30, 2007.

**HOMER COMMUNITY SCHOOLS
CORRECTIVE ACTION PLAN
JUNE 30, 2008
CONTACT PERSON: KATHY MILLS
OVERSIGHT AGENCY: U.S. DEPARTMENT OF EDUCATION**

Homer Community Schools respectfully submits the following corrective action plan for the year ended June 30, 2008.

Auditor: Maner, Costerisan & Ellis, P.C.
544 Cherbourg Drive, Suite 200
Lansing, Michigan 48917-5010

Audit Period: Year ended June 30, 2008

The finding from the June 30, 2008 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

Finding - Financial statement audit

Finding 2008-1 Considered a significant deficiency

Recommendation: At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Action to be taken: We will continue to rely on our external auditors to assist in the preparation of the annual audited financial statements and footnotes.



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Robert E. Miller, Jr.
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James A. McNeeley

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

August 15, 2008

To the Board of Education
Homer Community Schools

We have audited the financial statements of Homer Community Schools for the year ended June 30, 2008, and have issued our report thereon dated August 15, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Homer Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Homer Community Schools' financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Homer Community Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Homer Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Homer Community Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 14, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Homer Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is approximately \$639,000. In addition, certain amounts included in capital assets have been based on an outside appraisal company.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any significant disclosures.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 15, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Homer Community Schools' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Homer Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the finance committee, Board of Education and management of Homer Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

August 15, 2008



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August 15, 2008

To the Board of Education
Homer Community Schools

In planning and performing our audit of the financial statements of Homer Community Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Homer Community Schools internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated August 15, 2008 on the financial statements of Homer Community Schools. Our comments are summarized as follows.

PRIOR YEAR COMMENTS - CLOSED

Superintendent's Internal Control Procedures:

Last year, Homer Community Schools hired a new Superintendent. We recommended the new superintendent review the unopened bank statement, cancelled checks, and maintain numerical sequence of checks.

Conclusion: The superintendent has performed the above procedures.

Homer Education Foundation

Last year, we recommended the Max and Lucille Cortright Homer Education Foundation's activity be recorded in the general fund, and not the agency fund.

Conclusion: The Foundation activity is now recorded in the general fund.

CURRENT YEAR COMMENTS**Approval of Purchases**

Current procedures require the initial or signature of the superintendent on invoices or purchase orders before a check is written. During our testing, we noted invoices which did not contain the authorization of the superintendent. During discussion with the superintendent, we noted invoices were approved in bulk or verbal approval was given. We recommend all invoices show written evidence of approval. We believe this recommendation is an enhancement to internal controls already in place, and do not believe the lack of visual approval to be a significant deficiency to internal control.

Access to Blank Checks

During our audit, we noted certain individuals within the athletic department have access to the blank check stock. We recommend removing anyone from outside the administration department having access to the checks. We do understand from a practical standpoint there are times when a blank check may be requested.

Agency Funds

Homer Community Schools has approximately 80 different agency funds, all with different internal control systems. Our audit procedures did not indicate any instance of improper activity; however, we recommend Homer Community Schools accounting staff and Agency personnel work together to develop a plan to help ensure the completeness of receipts and existence of expenditures for all agency activities.

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

This report is intended solely for the information and use of Homer Community Schools, management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Mamie Costeniser & Ellis, P.C.

August 15, 2008